

**Audited Financial Statements
and Additional Information**

Salem-South Lyon District Library

Year Ended June 30, 2008
With Report of Independent Auditors

Salem-South Lyon District Library

Audited Financial Statements
and Additional Information

Year Ended June 30, 2008

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ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

Board of Trustees
Salem-South Lyon District Library
South Lyon, Michigan

We have audited the financial statements of the Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Salem-South Lyon District Library as of June 30, 2008, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The required supplemental information and other supplemental information listed in the table of contents are not a required part of the financial statements of Salem-South Lyon District Library but is supplementary information required by accounting principles generally accepted in the United States of America. The information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Library has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the financial statements.

Andrews Hooper & Pavlik P.L.C.

Auburn Hills, Michigan
August 7, 2008

Salem-South Lyon District Library
Balance Sheet / Statement of Net Assets
June 30, 2008

	General Fund	Debt Service Fund	Balance Sheet - Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets:					
Cash and cash equivalents	\$ 1,238,112	\$ 154,875	\$ 1,392,987	\$ -	\$ 1,392,987
Investments	182,027	-	182,027	-	182,027
Other assets	9,603	-	9,603	-	9,603
Due from other funds	7,502	-	7,502	(7,502)	-
Capital assets - net of accumulated depreciation	-	-	-	2,533,608	2,533,608
Total assets	<u>\$ 1,437,244</u>	<u>\$ 154,875</u>	<u>\$ 1,592,119</u>	<u>2,526,106</u>	<u>4,118,225</u>
Liabilities:					
Accounts payable	\$ 177,412	\$ -	\$ 177,412	-	177,412
Accrued liabilities	12,811	-	12,811	10,180	22,991
Due to other funds	-	7,502	7,502	(7,502)	-
Current portion of long-term debt	-	-	-	145,000	145,000
Total current liabilities	<u>190,223</u>	<u>7,502</u>	<u>197,725</u>	<u>147,678</u>	<u>345,403</u>
Long-term liabilities - net of current portion	-	-	-	1,283,310	1,283,310
Total liabilities	<u>190,223</u>	<u>7,502</u>	<u>197,725</u>	<u>1,430,988</u>	<u>1,628,713</u>
Fund Balances and Net Assets:					
Fund balance - reserved for debt service	-	147,373	147,373	(147,373)	-
Fund balance - unreserved					
Designated for capital improvements	1,212,742	-	1,212,742	(1,212,742)	-
Designated for fundraising	6,334	-	6,334	(6,334)	-
Designated for education and training	798	-	798	(798)	-
Undesignated	27,147	-	27,147	(27,147)	-
Total fund balances	<u>1,247,021</u>	<u>147,373</u>	<u>1,394,394</u>	<u>(1,394,394)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,437,244</u>	<u>\$ 154,875</u>	<u>\$ 1,592,119</u>		
Net assets:					
Invested in capital assets, net of related debt				1,128,608	1,128,608
Restricted for debt				147,373	147,373
Unrestricted				<u>1,213,531</u>	<u>1,213,531</u>
Total net assets				<u>\$ 2,489,512</u>	<u>\$ 2,489,512</u>

Salem-South Lyon District Library
Statement of Revenues, Expenditures and
Changes in Fund Balance / Statement of Activities
Year ended June 30, 2008

	General Fund	Debt Service Fund	Revenues and Expenditures - Modified Accrual Basis	Adjustments	Statement of Activities
Revenues:					
Property tax	\$ 769,350	\$ 207,111	\$ 976,461	\$ -	\$ 976,461
Service contract - Green Oak Township	319,987	18,158	338,145	-	338,145
Fines and fees	71,029	-	71,029	-	71,029
State aid	14,932	-	14,932	-	14,932
Gifts and miscellaneous	22,687	-	22,687	-	22,687
Interest on investments	62,520	4,839	67,359	-	67,359
Total revenues	1,260,505	230,108	1,490,613	-	1,490,613
Expenditures:					
Personnel	618,105	-	618,105	3,238	621,343
Library services and materials	165,607	-	165,607	(102,211)	63,396
Facilities and equipment	583,386	-	583,386	(513,497)	69,889
Other expenditures	55,956	-	55,956	-	55,956
Debt service	-	210,275	210,275	(141,474)	68,801
Depreciation	-	-	-	209,616	209,616
Total expenditures	1,423,054	210,275	1,633,329	(544,328)	1,089,001
Excess (deficiency) of revenues over expenditures	(162,549)	19,833	(142,716)	544,328	401,612
Other financing sources (uses)					
Transfers	18,158	(18,158)	-	-	-
Changes in fund balance / net assets	(144,391)	1,675	(142,716)	544,328	401,612
Fund balance / net assets - beginning of year	1,391,412	145,698	1,537,110	550,790	2,087,900
Fund balance / net assets - end of year	\$ 1,247,021	\$ 147,373	\$ 1,394,394	\$ 1,095,118	\$ 2,489,512

Salem-South Lyon District Library

Notes to the Financial Statements

June 30, 2008

1. Summary of Significant Accounting Policies

Introduction

The accounting policies of Salem-South Lyon District Library (the "Library") conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applicable to governmental units.

The significant accounting policies utilized by the Library are described below.

Financial Reporting Entity

The Library was established in May 1993 by a District Library Agreement between Salem Township and the City of South Lyon pursuant to the District Library Establishment Act. The Library's boundaries include the City of South Lyon, Michigan and Salem Township, Michigan, and a small area of Salem Township located within the jurisdiction of the Ann Arbor Public Schools. The Library is funded through a tax levy on property located within the district, as well as fines, fees and state aid.

In evaluating how to define the Library for financial reporting purposes, management has considered all potential component units. The decision to include or not include a potential component unit in the reporting entity was made by applying the criteria set forth in U.S. GAAP, currently GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Based upon the application of those criteria, the government-wide financial statements of the Library contain all the funds controlled by the Library's Board of Trustees as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the Library.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting of the Library conforms to U.S. GAAP as applicable to governmental units.

The Library's financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

In creating the government-wide financial statements the Township has eliminated interfund transactions. This government-wide focus is more on the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

Fund Financial Statements

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this focus, statements of revenues, expenditures and changes in fund balances present increases and decreases in net current assets and unreserved fund balance as a measure of the available spendable resources. Governmental funds are used to account for all or most of the Library's general activities, including the collection and disbursement of earmarked resources.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Governmental funds and agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they are both "measurable and available"). Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes, interest, state aid and the service contract revenues are susceptible to accrual and are considered available if they are collected within 60 days of the fiscal year. Other revenues become measurable and available when cash is received by the Library and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Expenditures are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Library reports the following major governmental funds:

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues are derived primarily from property taxes, state aid distributions, grants and other intergovernmental revenues.

Debt Service Fund

This fund accounts for the retirement of the 1996 Unlimited Tax General Obligation bonds.

Assets, Liabilities and Equity

Cash and Cash Equivalents

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments purchased with a maturity of three months or less from the date of acquisition.

Investments

Investments are carried at market value based on quoted market prices and consist of certificates of deposit, governmental cash funds and mutual funds.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated property and equipment are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and improvements	30 years
Equipment, furniture and fixtures	5 – 7 years
Library books, periodicals and videos	3 years

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Other Assets

Certain payments to vendors reflect costs applicable to the upcoming fiscal year and are recorded as prepaid items in both government-wide and fund financial statements.

Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Service Contract Revenue

The Library also services Green Oak Township under a separate operating agreement. The fee for this service is funded by a millage of Green Oak Township.

Income Taxes

The Library is a governmental sub-unit organization and as such is not subject to federal income tax.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Cash and Cash Equivalent Deposits – Custodial Credit Risk

Cash deposits and cash equivalent investments (certificates of deposit with maturities less than 90 days, money market funds and a governmental cash fund) are carried at cost. Cash deposits and cash equivalent investments of the Library are in the name of the Library at various banks and investment companies.

At June 30, 2008, the Library had two deposit accounts, two bank money market accounts and a government cash investment account. The Library follows Michigan Compiled Laws, Section 129.91, authorizing deposits and investments in the accounts of federally insured banks, credit unions and savings and loan associations that have offices in Michigan. The bank balance of the Library's bank deposits, consisting of checking and money market accounts, certificates of deposit with maturities less than 90 days and a government cash investment account was \$1,402,517. Of the bank balance, \$300,000 was covered by Federal Depository Insurance and \$1,102,517 was uninsured and uncollateralized; therefore, subjecting the Library to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Library's deposits may not be returned. The Library does not have a deposit policy for custodial credit risk. However, the Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

3. Investments

At June 30, 2008, the Library had the following investments with maturities less than one year:

	<u>Fair Market Value</u>
Deposits:	
Certificates of deposit (less than 90 days)	\$ 177,460
Certificates of deposit (more than 90 days)	182,027
Money market	888,872
Government cash investment fund	<u>242,227</u>
Total	1,490,586
Less investments reported as "Cash and cash equivalents" on the Statement of Net Assets	<u>1,308,559</u>
Total investments	<u>\$ 182,027</u>
As reported on Statement of Net Assets	
Current investments	\$ 182,027
Noncurrent investments	-
Total investments	<u>\$ 182,027</u>

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not specifically address interest rate risk. The Library's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market.

Credit Risk

Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. The Library's investments are limited by those authorized under Public Act 20 of 1943 (as amended) for credit risk as follows:

- Bonds, securities and other obligations of the United States or any agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of the state or the United States.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

3. Investments (continued)

- Commercial paper rated at the time of purchase at the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase. Total portfolio investment shall not exceed 10%.
- Repurchase agreements consisting of instruments listed in above. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Library has negotiated a Master Repurchase Agreement. Repurchase agreements must be signed with the bank or dealer and must contain provisions comparable to those outlined in the Public Security Association's model Master Purchase Agreement.
- Bankers' acceptances of United States banks.
- Mutual Funds registered under the Investment Company Act of 1940, maintain a \$1.00 per share net asset value and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

As of June 30, 2008, the credit quality rating of the government cash investment fund with a fair value of \$242,227 was P-1 by Moody's and A-1 by Standard and Poor's. The money market accounts were rated between A-1 and A-2 by Standard and Poor's and between P-1 and P-2 by Moody's. Certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a deposit policy for custodial credit risk of investments. The Library's certificates of deposit are not rated; however, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

3. Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Library's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. To limit its exposure to concentration of credit risk, the Library's investment policy limits its investment choices by maturity dates, individual financial institutions or specific class of securities in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments in mutual funds, external investment pools and other pooled investments are excluded from concentration of credit risk disclosures.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. State law and the Library's policy prohibit investment or deposit in foreign currency.

4. Capital Assets

A summary of capital asset activity of the Library is as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 152,000	\$ -	\$ -	\$ 152,000
Capital assets being depreciated:				
Building	2,420,234	491,599	-	2,911,833
Equipment, furniture and fixtures	455,181	21,898	-	477,079
Library books, periodicals and videos	936,810	102,211	(145,230)	893,791
Subtotal	3,812,225	615,708	(145,230)	4,282,703
Accumulated depreciation	(1,836,709)	(209,616)	145,230	(1,901,095)
Net capital assets being depreciated	1,975,516	406,092	-	2,381,608
Capital assets – net	<u>\$ 2,127,516</u>	<u>\$ 406,092</u>	<u>\$ -</u>	<u>\$ 2,533,608</u>

Depreciation expense for the year ended June 30, 2008 was \$209,616.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

5. Long-term Debt

At June 30, 2008, outstanding debt consisted of the following:

Accumulated employee benefits payable to employees under the Library's vacation and sick pay policy.	\$ 23,310
Unlimited Tax General Obligation Bonds, for the purpose of acquiring, constructing, equipping and furnishing a library building, which were dated February 1, 1996. The debt is secured by a pledge of the Library's limited tax full faith and credit. Due in installments May 1, 2004 through May 1, 2016 bearing interest between 4.6% and 6.5%.	<u>1,405,000</u>
Total long-term debt	<u><u>\$ 1,428,310</u></u>

The following is a summary of the changes in long-term debt for the year ended June 30, 2008:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Accumulated Employee Benefits	\$ 20,072	\$ 3,238	\$ -	\$ 23,310
General Obligation Bonds	1,545,000		140,000	1,405,000
	<u>\$ 1,565,072</u>	<u>\$ 3,238</u>	<u>\$ 140,000</u>	1,428,310
Less current portion				145,000
Total long-term debt, net of current portion				<u><u>\$ 1,283,310</u></u>

Debt Service Requirements

The annual principal and interest requirements through maturity for the general obligation bonds outstanding as of June 30, 2008:

Fiscal Year Ending	Principal	Interest	Total
2009	\$ 145,000	\$ 63,625	\$ 208,625
2010	155,000	57,100	212,100
2011	165,000	50,125	215,125
2012	170,000	42,700	212,700
2013	180,000	35,050	215,050
2014	190,000	26,950	216,950
2015	200,000	18,400	218,400
2016	200,000	9,200	209,200
	<u>\$ 1,405,000</u>	<u>\$ 303,150</u>	<u>\$ 1,708,150</u>

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

5. Long-term Debt (continued)

During the year ended June 30, 2008, the Library incurred interest expense of approximately \$70,000.

6. Defined Contribution Retirement Plan

The Library provides retirement benefits through a deferred compensation plan, created in accordance with IRC Section 457, to all of its salaried employees who have worked in excess of three months. The plan is administered by the Security Benefit Group of Companies. In a defined contribution plan, benefits depend solely on the amounts contributed to the plan plus investment earnings. There are no employer contributions required by the plan. As established by the Library Board, for the June 30, 2008 fiscal year, the Library made a discretionary contribution of 6.5% of employees' gross earnings. Employees may contribute an amount not to exceed the Internal Revenue Service guidelines. The contributions to the plan for the year ended June 30, 2008 are as follows:

	2008
Employer	\$ 29,617
Employee	15,901
Total contributions	<u>\$ 45,518</u>

7. Property Taxes

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Library's 2008 ad valorem tax is levied and collectible on December 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the Library District totaled \$747.9 million, on which ad valorem taxes levied consisted of 1.0338 mills for operating purposes and 0.2763 mills for debt service. This resulted in property taxes of \$769,350 for operating and \$207,111 for debt service. These amounts are recognized in the respective General Fund and Debt Service Fund financial statements as tax revenue.

8. Interfund Receivables and Payables

The amount of the interfund receivables and payables is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Debt Service Fund	\$ 7,502

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

9. Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a basis consistent with U.S. GAAP. Annual appropriated budgets are adopted for the General Fund and the Debt Service Fund. All annual appropriations lapse at the fiscal year end. The appropriated budgets are prepared on a detailed line-item basis. The Library does not maintain a formalized encumbrance accounting system. Budget appropriations are considered to be spent once the goods are delivered or the services are rendered.

The Library follows these procedures in establishing the budgetary data reflected in the supplemental information:

1. Prior to March 15, the Library Director submits to the Library Board proposed operating budgets for the fiscal year commencing the following July 1. In May, the budgets are legally adopted by the Library Board. The budgets present information by fund and line items. The legal level of budgetary control adopted by the governing body is the line item level for the General Fund and the functional level for the Debt Service Fund. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law.
2. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.
3. Prior to June 1, the budgets are legally adopted by a Library Board Resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires budgets to be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Act are disclosed as unfavorable variances on the budgetary comparison schedules.
4. The Library Board must approve any revisions that alter the total expenditures for any activity.
5. The General Fund budget as presented has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30, 2008.

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

9. Stewardship, Compliance and Accountability (continued)

Excess Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the supplemental information, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a fund, functional and line item basis.

During the year ended June 30, 2008, the Library incurred expenditures in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Total</u>	<u>Amount of</u>	<u>Budget</u>
	<u>Appropriations</u>	<u>Expenditure</u>	<u>Variance</u>
General Fund:			
Equipment	\$ 343,745	\$ 516,509	\$172,764

10. Risk Management

The Library is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library carries commercial insurance for employee injury claims and participates in the Michigan Townships Participating Plan for claims relating to property loss, torts and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

11. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balance and the net change in fund balance of the Library's governmental funds differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Salem-South Lyon District Library

Notes to the Financial Statements (continued)

11. Reconciliation of Fund Financial Statements to Government-Wide Financial Statements (continued)

Total Fund Balance – Modified Accrual Basis	\$ 1,394,394
Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the fund financial statements	2,533,608
Compensated absences are included as a liability	(23,310)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the fund financial statements	(10,180)
Long-term liabilities are not due and payable in the current period and are not reported in the fund financial statements	<u>(1,405,000)</u>
Net Assets – Full Accrual Basis	<u>\$ 2,489,512</u>
Net Change in Fund Balance – Modified Accrual Basis	\$ (142,716)
Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library books, materials and facilities and equipment	615,708
Depreciation	(209,616)
Decrease in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund financial statements	(3,238)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the fund financial statements	1,474
Principal payments on long-term liabilities are reported as an expenditure on the fund financial statements	<u>140,000</u>
Net Change in Net Assets – Full Accrual Basis	<u>\$ 401,612</u>

Required Supplemental Information

Salem-South Lyon District Library
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
Revenues:				
Property tax	\$ 771,924	\$ 769,350	\$ 769,350	\$ -
Service contract - Green Oak Township	185,000	185,000	319,987	134,987
Fines and fees				
Penal fines	45,000	45,000	46,543	1,543
Fines	20,000	20,000	21,386	1,386
Nonresident fees	-	3,100	3,100	-
Total fines and fees	65,000	68,100	71,029	2,929
State aid	7,700	11,200	14,932	3,732
Gifts and miscellaneous				
Single business tax	3,500	-	-	-
Gifts and miscellaneous	-	22,782	22,687	(95)
Total gifts and miscellaneous	3,500	22,782	22,687	(95)
Interest on investments	35,000	37,574	62,520	24,946
Total revenues	1,068,124	1,094,006	1,260,505	166,499

Salem-South Lyon District Library
 Budgetary Comparison Schedule - General Fund (continued)
 Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
Expenditures:				
Personnel				
Salaries	\$ 550,000	\$ 550,000	\$ 520,737	\$ (29,263)
Employee benefits	60,500	60,500	52,094	(8,406)
Dues and workshops	3,500	3,500	3,462	(38)
FICA expense	42,100	42,100	39,636	(2,464)
Transportation and travel	3,500	3,500	2,176	(1,324)
Total personnel	659,600	659,600	618,105	(41,495)
Library services and materials				
Library materials	110,500	110,500	102,210	(8,290)
Library supplies	15,500	15,500	14,248	(1,252)
Computer supplies	5,000	5,000	2,313	(2,687)
Cooperative fee	50,000	50,000	39,625	(10,375)
Programs	9,000	9,000	7,211	(1,789)
Total library services and materials	190,000	190,000	165,607	(24,393)
Facilities and equipment				
Maintenance and repairs	28,000	25,500	20,608	(4,892)
Utilities	52,000	52,000	38,385	(13,615)
Insurance	10,000	10,000	7,884	(2,116)
Equipment	65,079	343,745	516,509	172,764
Total facilities and equipment	155,079	431,245	583,386	152,141
Other expenditures				
Contractual services	27,500	30,000	29,765	(235)
Attorney fees	2,000	2,000	-	(2,000)
Auditor	7,800	7,800	7,750	(50)
Board expenditures	500	500	143	(357)
Office supplies	6,000	6,000	5,936	(64)
Postage	2,000	2,000	1,650	(350)
Telephone	4,000	4,000	-	(4,000)
Printing	4,000	4,000	1,823	(2,177)
Grant expense	-	2,299	1,500	(799)
Gifts and miscellaneous	500	20,721	7,389	(13,332)
Contingency fund	9,145	9,145	-	(9,145)
Total other expenditures	63,445	88,465	55,956	(32,509)
Total expenditures	1,068,124	1,369,310	1,423,054	53,744
Excess (deficiency) of revenues over expenditures	-	(275,304)	(162,549)	112,755
Other financing sources				
Transfers in	-	18,158	18,158	-
Changes in fund balance	-	(257,146)	(144,391)	112,755
Fund balance - beginning of year	1,391,412	1,391,412	1,391,412	-
Fund balance - end of year	\$ 1,391,412	\$ 1,134,266	\$ 1,247,021	\$ 112,755

Other Supplemental Information

Salem-South Lyon District Library
 Budgetary Comparison Schedule - Debt Service Fund
 Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Over (Under) Budget
Revenues:				
Property tax	\$ 206,275	\$ 206,275	\$ 207,111	\$ 836
Service contract - Green Oak Township	60,000	60,000	18,158	(41,842)
Interest on investments	4,000	4,000	4,839	839
Total revenues	270,275	270,275	230,108	(40,167)
Expenditures:				
Debt service	210,275	210,275	210,275	-
Excess of revenues over expenditures	60,000	60,000	19,833	(40,167)
Other financing uses				
Transfers out	(60,000)	(60,000)	(18,158)	(41,842)
Changes in fund balance	-	-	1,675	1,675
Fund balance - beginning of year	145,698	145,698	145,698	-
Fund balance - end of year	<u>\$ 145,698</u>	<u>\$ 145,698</u>	<u>\$ 147,373</u>	<u>\$ 1,675</u>

Salem-South Lyon District Library

Report to the Board of Trustees

August 7, 2008

**Andrews Hooper & Pavlik P.L.C.
Certified Public Accountants
3201 University Drive, Suite 350
Auburn Hills, Michigan 48326**



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

August 7, 2008

Board of Trustees
Salem-South Lyon District Library
9800 Pontiac Trail
South Lyon, Michigan 48178

In planning and performing our audit of the financial statements of the Salem-South Lyon District Library (the "Library") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed within this letter, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Recent changes in the auditing standards generally accepted in the United States have changed the terminology used to report to management as described below.

The following deficiencies on the financial reporting process and the accounts payable process are considered significant deficiencies:

FINANCIAL REPORTING PROCESS

As is typical in organizations of this size, it is difficult to have personnel that possess all the financial reporting technical skills necessary to comply with often complex accounting standards. This common characteristic appears to be present in the Library. Although this

assistance was provided as an additional procedure, the potential for future misstatements that are more than inconsequential based on the present skill level of the Library's personnel appears to be more than remote. While the expectation may not necessarily be for all accounting personnel to possess these technical skills, it may be necessary to obtain additional expertise in order to achieve the desired financial reporting objectives.

ACCOUNTS PAYABLE YEAR-END CLOSING PROCESS

We noted during our audit that management is not currently making all the adjusting journal entries related to the year-end closing process of accounts payable. However, management was able to provide support for the required entry. A well-designed system of internal control includes a process for accurately summarizing and reporting financial data on a timely basis. We identified an entry necessary to record a large invoice payable at year-end. We recommend that management record all adjusting journal entries and finalize the trial balance prior to the start of audit fieldwork.

We also identified the following deficiencies in internal control as a result of our audit.

DISASTER RECOVERY PLAN

We noted that the Library currently has in place a documented disaster recovery plan. However, documentation is not maintained regarding when the plan was last tested. We recommend that the Library review, update and test the plan annually, and that documentation of that process be maintained with the plan.

LIBRARY CREDIT CARDS

The Library has credit cards for various staff members. The Library also has a policy in place over credit cards. During our audit, we noted one instance where the receipt for a credit card transaction was not filed with the credit card statement. We recommend that receipts for all transactions be retained and filed with the credit card statements, in accordance with Library policy.

* * *

We would be pleased to discuss these matters in further detail at your convenience, to perform any study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Library Board, Management and others within the Library and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Andrews Hlopu & Pavlik P.L.C.

Auburn Hills, Michigan